

Boston Industrial Market

Rent Growth Persists Further into Record-Breaking First Quarter

Greater Boston's industrial market fundamentals remained sturdy, moving through the first quarter of 2022. Overall asking rates remain on an upward trajectory, increasing more than 3.5% from the fourth quarter of 2021 and 9.5% compared to a year ago, finishing the quarter at \$12.87/SF NNN. Industrial vacancies declined for the sixth consecutive quarter, reaching a new historic low of 3.1%. The demand for quality industrial space combined with nationwide supply shortages indicate that vacancy rates will continue to decrease in the near term. While there were several sizeable leases inked in the first quarter, led by Crane Logistics and Wayfair, the scarcity of warehouse space caused positive net absorption to fall below one million square feet for the first time in three quarters, with roughly 650,000 square feet of positive net absorption in the first quarter, compared to 1.7 million square feet of absorption during the fourth quarter of 2021. The General Industrial and Warehouse/Distribution subtypes each experienced a 30-basis-point decrease in vacancy rates compared to fourth-quarter levels, falling to 2.7% and 2.5%, respectively. The first quarter of 2022 marked the first time that General Industrial vacancy has dropped below 3.0%. Investment in industrial properties yielded \$632.0 million with an average per-square-foot sales price of \$248.

Industrial Development Robust with Speculative Builds

Greater Boston's consistent, robust demand for quality industrial product has pressed both developers and investors to consider traditional as well as alternative ways to deliver new space to the

Current Conditions

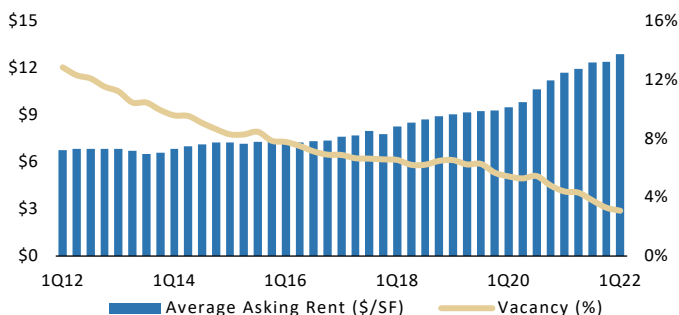
- Investment in industrial assets slowed, but average per-square-foot sales figures remain high.
- Market fundamentals are extremely tight, with vacancies reaching new historic lows of 3.1% during the first quarter.
- Asking rents grew for the 17th straight quarter, this time increasing 3.5% to \$12.87/SF NNN.
- Inflation has driven rent escalations above 3% for the first time in the Boston metro industrial market.

Market Summary

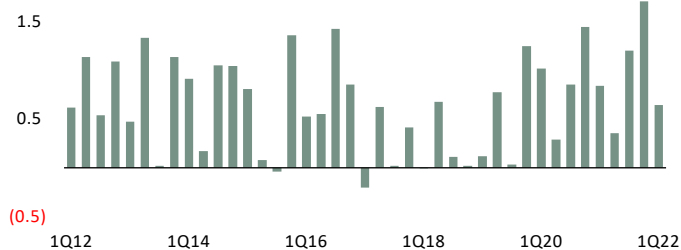
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	216.2M	215.4M	216.5M	↑
Vacancy Rate	3.1%	3.3%	4.4%	↔
Quarterly Net Absorption (SF)	0.6M	1.7M	0.8M	↑
Average Asking Rent/SF	\$12.87	\$12.38	\$11.70	↑
Under Construction (SF)	6.1M	6.8M	2.0M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q1 2022

market. There currently exists approximately 34.7 million square feet of projects proposed, permitted, or under construction in the Boston metro, Worcester and Southern New Hampshire pipeline, with a select few planning to deliver one million square feet per facility. While several of the largest projects in the Boston metro are trending towards build-to-suit facilities, developers are continuing to explore bringing larger speculative builds to the market as tenant demand has yet to wane. The average size for new speculative facilities currently under construction is roughly 400,000 square feet, including two buildings which broke ground in the fourth quarter. Although tenants remain hesitant to commit to large space until ground has been broken, distribution centers with in-place delivery dates are generating high levels of interest and demand.

In response to supply shortages and a lack of buildable land in the Boston metro area, there continues to be a push from developers towards office-to-industrial conversions and nontraditional markets. Boston's suburban office market remains challenged, and there currently exists roughly 2.2 million square feet of office-to-industrial conversions that are permitted, proposed, or under construction in the pipeline. A notable conversion that broke ground in the first quarter was Amazon's 175,000 square foot facility at 4400 Computer Drive in Westborough. The building underwent a full demolition, and the new industrial facility is expected to come on line in the first quarter of 2023. With the e-commerce giant paving the way for large companies in need of industrial space, the office-to-industrial conversion is a trend to watch.

Market Activity

Industrial leasing activity continued to display its strength during the first quarter of 2022, starting the new year strong with a largely positive net absorption across the Boston metro area. Deal volume in the first quarter included a mixture of both large and small lease transactions. Leasing transactions this quarter were spread fairly evenly across all of the metro's submarkets as well. The four largest deals executed were new leases, located along Route 495, with a few smaller leases being signed in the Urban industrial submarket. Warehouse/Distribution leasing activity still appears to dominate in the market, although the largest deal of the first quarter occurred at a GMP/Biomanufacturing building. Notable transactions that occurred in the first quarter include Crane Logistics' 104,380-square-foot lease at the Warehouse/Distribution facility located at 64 Research Drive in

Haverhill. Wayfair inked an 88,000-square-foot direct lease at 20 Constitution Drive in Taunton. Granite City Electric closed on an 85,414-square-foot direct Warehouse/Distribution lease at 14 Aegean Drive in Methuen. Additionally, US Pack executed an 83,445-square-foot direct lease at 50 John Hancock Road in Taunton.

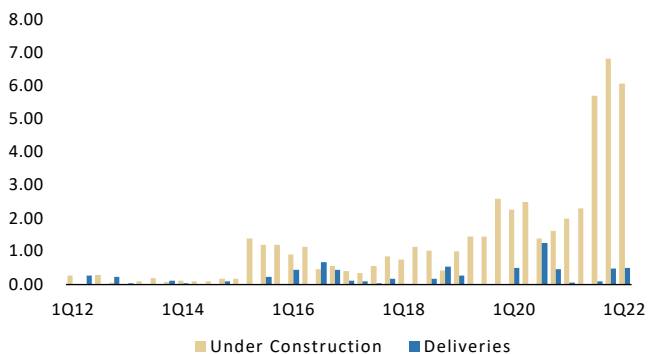
The scarcity of quality Warehouse/Distribution space in the Boston metro persists as e-commerce tenants continue to drive activity in the industrial market. Due to this, warehouse users are facing very tight market fundamentals. Big blocks of existing warehouse space are hard to come by, with the only remaining large spaces being in the South at 57 Littlefield Street in Avon, 132 Campanelli Industrial Drive in Brockton, 35 United Drive in Bridgewater and 385 Myles Standish Boulevard in Taunton. With availability falling to another all-time low for the fourth straight quarter, this time finishing at 2.0%, the development and conversion for warehouse space continue to garner attention as owners and landlords attempt to ease the intense demand.

Record-Setting Rent Growth

Industrial asking rents for the overall Boston metro reached an all-time high for the fourth straight year, finishing out the first quarter at \$12.87/SF NNN. This represents a 9.5% increase compared to year-ago levels, and a 35.1% increase since before the COVID-19 pandemic. Vacancy persisted in its decline throughout the first quarter, dropping just over 20 basis points from the fourth quarter of 2021 to 3.1%, reaching a historic low for the sixth consecutive quarter. The South submarket has generated the most drastic decline in recent years, this quarter dropping over 40 basis points to 2.3%, over 200 basis points lower than year-ago levels. In an attempt to alleviate demand, the South submarket has over 1.5 million square feet of industrial space currently under construction, all of which is Warehouse/Distribution space. Look for continued interest from landlords and investors to provide the market with much-needed supply. With scarcity of big blocks of industrial space in the market, landlords have been able to consistently maintain unprecedented rent growth. Lease rates for Warehouse/Distribution space finished the quarter at \$12.91/SF NNN, posting significant growth of 7.2% compared to fourth quarter numbers, and a staggering 32.3% higher than year-ago levels. Average asking rents for R&D/Flex space decreased once again this quarter, dropping just slightly to \$14.52/SF NNN,

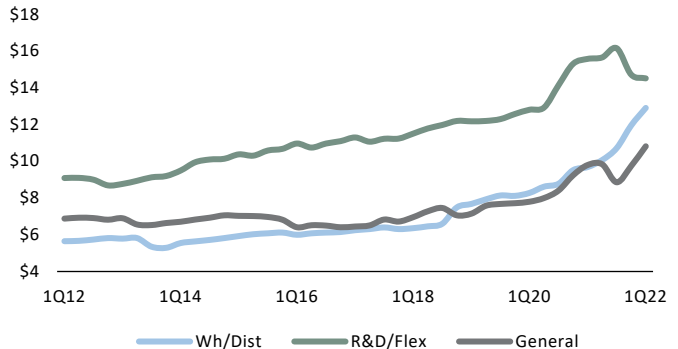
Construction and Deliveries

SQUARE FEET, MILLIONS



Asking Rent by Property Type

\$/SF



RESEARCH Q1 2022

a 1.4% quarter-over-quarter decrease, and 10.1% below third quarter numbers. Greater Boston's Urban industrial submarket continues to garner the highest asking rents in the metro, typically ranging from \$25.00-\$35.00/SF NNN, while rents within the Route 128 loop are now collecting \$15.00- \$20.00/SF NNN. Along the Route 495 belt industrial rents routinely range from \$9.00-\$12.00/SF NNN.

Capital Markets

Industrial investment in Greater Boston waned during the first quarter. Approximately \$632 million across 2.1 million square feet of industrial product changed hands throughout the metro area during the first quarter. Although total volume declined, the average per-square-foot sale price remains well over \$200/SF. The lion's share of larger sales transactions this quarter were individual-property sales, with all significant transactions, with the exception of one, falling into this category. In the largest individual-property sale of the quarter, Westbrook Partners purchased a 241,000-square-foot Warehouse/Distribution facility at 451 Wildwood Avenue in Woburn. The sale price of \$88.5 million equates to approximately \$366/SF. Other notable investment sales, individual-property transactions, include 774 Norfolk Street in Mansfield, a Warehouse/Distribution facility, which sold for \$35.0 million, as well as 130 Dever Drive in Taunton, an R&D/Flex property that sold to Spirit Realty Capital for \$28.2 million, or \$282/SF. Additionally, 10 Trotter Drive in Medway, an R&D/Flex asset, sold to Lincoln Property Co for \$21.7 million, more than triple what it sold for in late 2018. Lastly, the 75,224-square-foot warehouse property at 29 Everett Street in Holliston, which sold to Innovate Industrial Props (IIP) for \$16.0 million, or \$213/SF.

One notable portfolio capital markets transaction occurred during the first quarter, this time in Chelsea where Hines purchased a four-

property portfolio including a warehouse property and three land parcels zoned for industrial distribution. The portfolio sold for \$68.6 million, \$44.0 million of which was allotted to the purchase of 22 Willow Street. Another notable portfolio sale occurred outside of the immediate Boston metro area in Londonderry, New Hampshire: the KPR NH Self Storage Portfolio, a two-property portfolio consisting of 6 and 219 Rockingham Road. The market has witnessed an uptick in activity in these Southern New Hampshire submarkets, proving the maturation of new industrial clusters with slightly further proximity to Boston.

Outlook

As interest and demand continue to outpace supply and development, Greater Boston's industrial fundamentals remained impressive throughout the first quarter. Historically low vacancy rates as well as record-setting rent growth have established the industrial asset class as one of the most desirable in the Boston metro for investors and developers alike. With supply shortages persisting and investment remaining potent, these trends are expected to continue throughout the coming year.

Although pandemic restrictions were lifted earlier this year, e-commerce remains at the forefront of consumer habits, commanding quality industrial space to accommodate demand. This has caused developers to remain bullish on tenant demand, as large speculative projects remain robust. With owners hesitant to demise large spaces, developers will explore areas outside the Boston metro to deliver new space to the market. Although the industrial market is not immune to macroeconomic conditions and inflation, expect solid growth and strong fundamentals to continue throughout 2022 as deliveries increase.

Select Lease Transactions

Tenant	Address	Submarket	Type	Square Feet
Crane Logistics	64 Research Drive, Haverhill	North	Direct Lease	104,380
Wayfair	20 Constitution Drive, Taunton	South	Direct Lease	88,000
Granite City Electric	14 Aegean Drive, Methuen	North	Direct Lease	85,414
US Pack	50 John Hancock Road, Taunton	South	Direct Lease	83,445
Associated Materials LLC	9 York Avenue, Randolph	South	Direct Lease	20,000

Select Sale Transactions

Address	Submarket	Property Type	Sale Price	Price/SF	Square Feet
415 Wildwood Avenue, Woburn	North	Warehouse/Distribution	\$88,500,000	\$366.31	241,600
22 Willow Street, Chelsea*	Urban	Warehouse/Distribution	\$44,036,712	\$301.62	146,000
774 Norfolk Street, Mansfield	South	Warehouse/Distribution	\$35,000,000	\$170.40	205,000
130 Dever Drive, Taunton	South	R&D/Flex	\$28,242,686	\$282.43	100,000
10 Trotter Drive, Medway	South	R&D/Flex	\$21,700,000	\$180.83	120,000
29 Everett Street, Holliston	South	R&D/Flex	\$16,000,000	\$280.70	57,000

* Part of a 4-property (1 building, 3 land-parcel) portfolio that sold for \$68.6 million.

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist. Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Urban	22,519,358	400,324	4.2%	69,557	69,557	\$19.09	\$23.78	\$19.52
North	75,809,586	4,135,000	3.5%	99,105	99,105	\$14.29	\$14.37	\$13.17
South	80,916,010	1,543,440	2.3%	407,041	407,041	\$10.65	\$14.26	\$11.42
West	36,949,833	-	3.2%	67,384	67,384	\$11.20	\$11.48	\$10.47
Market	216,194,787	6,078,764	3.1%	643,087	643,087	\$12.82	\$14.52	\$12.81

Submarket Statistics by Subtype

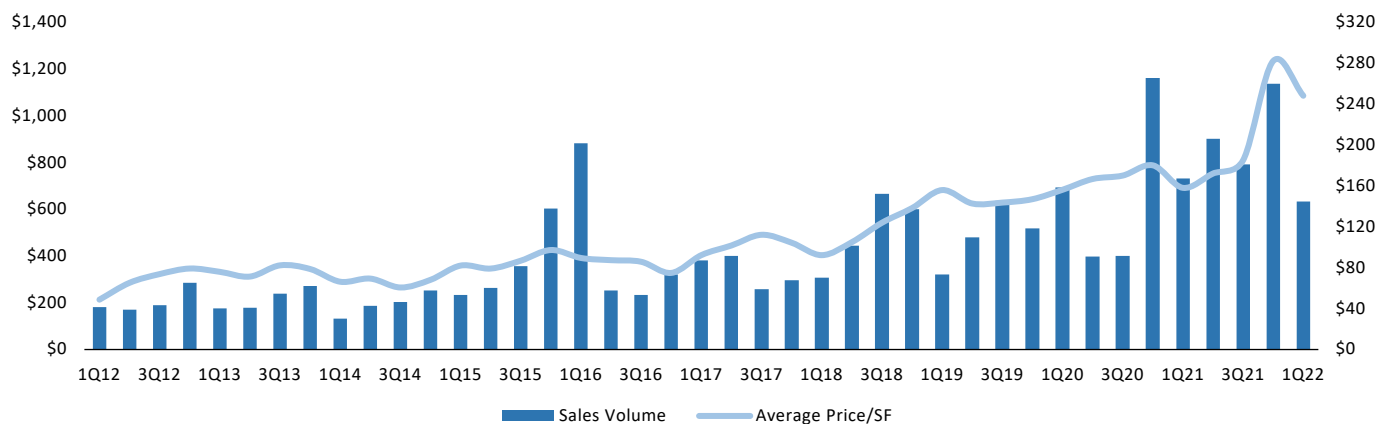
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
General Industrial	57,662,219	295,784	2.7%	192,232	192,232	\$10.82
R&D/Flex	52,181,408	-	4.7%	(26,483)	(26,483)	\$14.52
Warehouse/Distribution	106,351,160	5,782,980	2.5%	477,338	477,338	\$12.91
Market	216,194,787	6,078,764	3.1%	643,087	643,087	\$12.87

Class A Statistics

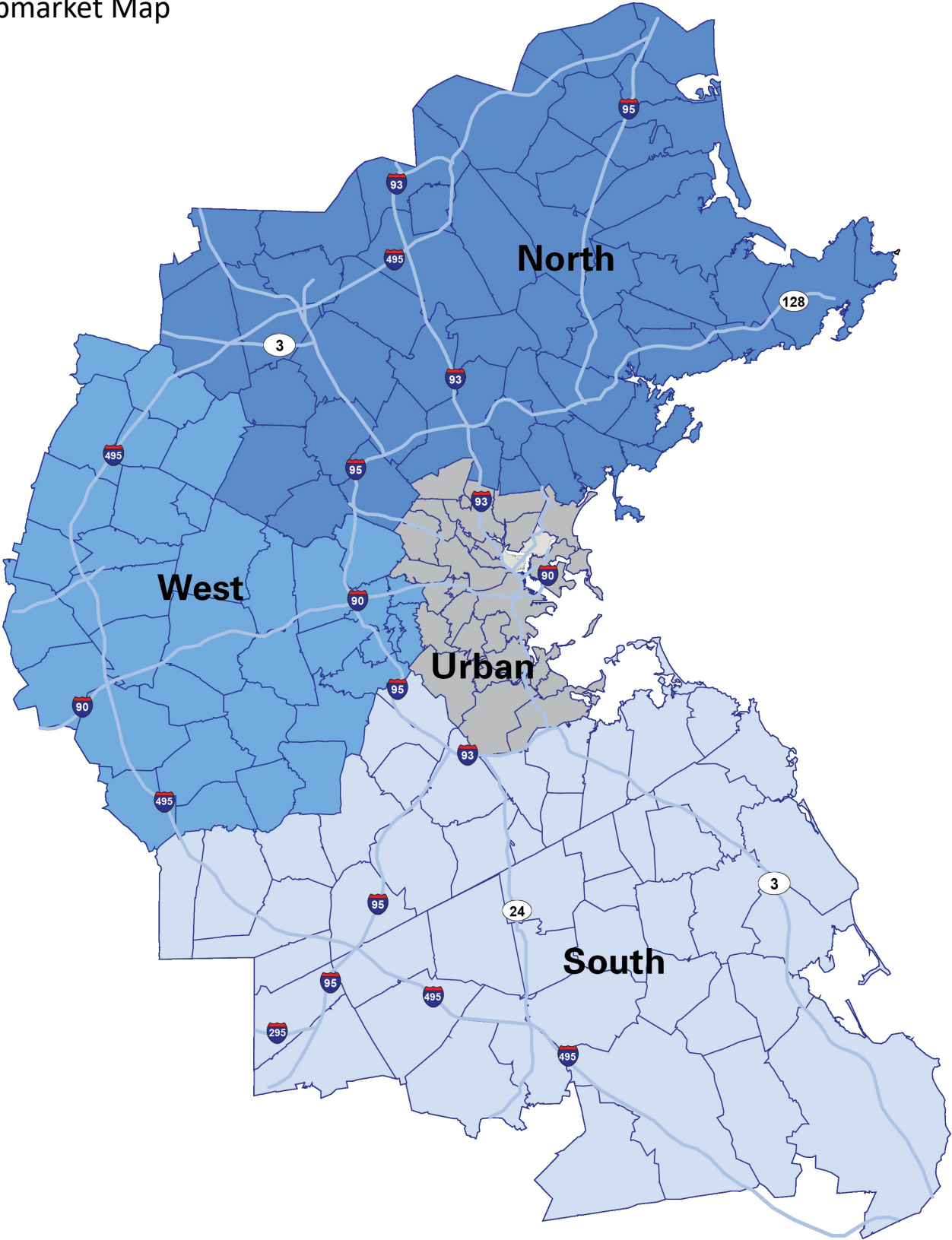
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist. Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Market	34,225,827	5,477,140	1.8%	334,015	334,015	\$13.39	\$13.29

Industrial Investment

SALES VOLUME (MILLIONS AND AVERAGE PRICE/SF)



Submarket Map



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New Orleans

MARYLAND

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TEXAS

Austin

Dallas

Houston

UTAH

Salt Lake City

VIRGINIA

Tysons Corner

WASHINGTON

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